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UNITED STATES DEPARTMENT OF AGRICULTURE
Agricultural Adjustment Administration
Washington, D. C.

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BASIC QUESTIONS AND ANSWERS ON AGRICULTURAL ADJUSTMENT

PART I

Why is National Agricultural Adjustment Necessary?

American farmers are dealing with difficulties that have beset them for many years. At the beginning of 1933, the most immediately troublesome difficulty was a national surplus of wheat, hogs, cotton and tobacco, but at that time all these difficulties came to a head and led to the adoption of a new national policy toward agriculture.

The agricultural adjustment program instituted in 1933 and continuing through 1934 is a national effort, in which more than 3,000,000 farmers are adjusting their production to a greatly changed domestic and foreign market.

The first of the five main points in the farm program of the Grange, as stated by National Grange Master Louis J. Taber at the 68th annual session of the order in Hartford, Connecticut, November 14, 1934, is this:

"Lift farm prices by the adjustment of production to the consumptive demand."

What Is the Nation's Agricultural Policy?

A national policy for agriculture has long been a recognized need of this foundation industry.

Year after year agriculture got a smaller and smaller share of the national income, until the buying power of farmers was almost paralyzed. This paralysis seriously affected the Nation's business and well-being.

The Agricultural Adjustment Act is based on the Nation's experience in dealing with its agricultural difficulties.

Consequently, the Act was framed to treat the farm problem as a whole, not in piecemeal fashion, and to treat it in relation to the other elements in our National life.

What Is a Balanced Agriculture?

A balanced agriculture is the long-time goal toward which the Nation is proceeding under the Act.

A balance between the nation's output of farm products and the available markets for them is necessary.

There must be balance between the income of farmers and the income of their neighbors in cities and towns.

Insofar as success is achieved in establishing and maintaining this balance, a fair share of the national income will be received by farmers.

Is Self-Reliance Enough?

In working toward a balanced agriculture, can't every farmer go his own way and do as he pleases? Are there any substitutes for self-reliance and individual effort?

Why should farmers try to do things together on a national scale if each one is able to hoe his own row on his own farm?

Every man knows that there are limits to what he can do without help and to the load that he can carry on his own back.

Self-reliance and individualism are of the highest usefulness on farms, and they are worth preserving. When, however, farmers are placed where each one's economic burdens are growing greater than he can carry by self-reliance and individual effort, then it becomes the Nation's duty to help farmers help one another.

In every farming neighborhood examples of farmers helping one another are numerous every year. Modern transportation has extended the marketing and trading bounds of every farming neighborhood until that neighborhood is a functioning part of the whole economic neighborhood of the nation.

The farmer's economic neighborhood is not only the nation, but, to a large extent, the rest of the civilized world.

Farmers are therefore realizing that it is good business to cooperate with one another under a national plan. Through national cooperation they are reducing the unbridled competition which has been enormously expensive to American farmers.

What Do Farmers Ask?

What farmers ask is, primarily, a chance to make a living. In the 14 years before 1933, their chance to do that was less than the chance of the average member of the American economic community.

In all that time, prices for what farmers sold lagged behind prices that they paid for what they bought.

The farmer's share in the national income steadily declined.

In those 14 years farm people constituted not less than 25 per cent of the nation's total population. In 1919 the national income was about 66 billion dollars; 18 per cent of it went to farmers.

For a brief period farmers got relatively more for what they sold than they paid for what they bought.

By 1921 the national income had dropped to 63 billion dollars, of which farmers received only 11 per cent, which was less than their pre-war share.

What Was the Farmer's Share?

In the next 7 years the national income had risen to 88 billion dollars, of which the farmer's share declined to 9.3 per cent. Then came widespread hard times, which made the farmer's economic disadvantage much worse than it was before.

By 1932 the national income was cut almost in two, and the farmer's share of that reduced amount was only 7 per cent. At the same time, the purchasing power of farm commodities fell to about half what it was before the war.

But no corresponding reduction took place in the farmer's fixed charges, such as debts and taxes. Since he had to meet these charges, as well as his living expenses, if he were not to lose his farm, his actual purchasing power for goods and services fell to much less than half.

Why Were Men Out of Work?

Farmers became less and less able to buy things that people in cities were making. Ever since th World War, they had been struggling with a condition of surplus.

Crop failures for some farmers in some areas occurred every year, through various causes, and there was always the possibility that in some one year disaster, from one or more of these causes, might strike farmers over a wide area.

Despite this fact, the total output from our farms remained greater than could be sold on the available market.

Because of surplus production, farm product prices underwent a long decline. Crops were either left on the farmer's hands or sold at prices below costs, while his fixed charges remained at war-time levels. He and his neighbors produced much more cotton, wheat, corn, hogs, tobacco, and other products than the market could absorb.

Vast carry-overs of wheat and cotton in particular were stored in warehouses.

How Could One Surplus Cause Another?

Why did the supply of farm commodities happen to get far out of line with the demand for them?

One surplus caused another until plenty and poverty became twin surpluses. Poverty was a surplus of labor; plenty was a surplus of food. Both surpluses were idle and deteriorating.

As the farmer got less and less for what he sold, he bought less and less of industrial goods. In countless instances, he borrowed money in order to pay fixed charges, thus paying for the privilege of working for nothing.

Leading industries lost their farm orders. When manufacturers realized that they were accumulating surpluses, they put their factories on short time or closed down completely. This turned a surplus of goods into a surplus of men, who could no longer convert their time into money.

Idle men couldn't buy the food they needed, and farmers couldn't buy the things that these men had been making.

Why Did Farm Debts Increase?

Lowered prices meant that farmers who harvested full crops had small incomes, and farmers whose crops were poor or damaged had still smaller incomes because they had little to sell. Both groups were getting less than their share of the national income.

Uncertainties about price were particularly disturbing to farmers who were at grips with fixed charges which they had assumed in years of rising values.

Farm mortgages are based on the value of land and buildings offered as security. The indebtedness that a farm can support depends on the returns per acre obtained from it.

If farm product prices fall lower than they were when a debt was assumed, the returns per acre from the farm drop proportionally. Consequently, the owner cannot pay the debt even by selling the place.

Land values are pulled down by low prices for what the land produces.

How Are Farm and City Best Served?

Farmers want a balanced national economy in which there is a minimum of strain on either side of the scale, on the city or the country, on the producer or the consumer. Farmers want prices at levels which will keep their farms going as business concerns.

At the beginning of 1933 the farmer was exchanging nearly 100 per cent of his regular production for not much more than 50 per cent of his former consumption of manufactured goods.

That was ruinous for everyone concerned, and it concerned everybody. Both farm and city are best served by a balance between the producing and the consuming power of the nation.

What Agricultural Surpluses Existed in 1932-33?

At the outset of the 1932-33 season, nearly 400 million bushels of American wheat and 13 million bales of American cotton were on hand. The 1932 crop of our most important tobacco type was 374 million pounds.

Hogs with a total weight of not far from 12 billion pounds were growing heavier on farms, with 100 million acres planted to corn to feed them.

All these and more besides represented the wealth of the American farmer. Was he a rich man? He was not. He as 6 1/3 million hard-pressed men trying to support families numbering 30 million farm dwellers, not to mention 20 million people in rural towns directly dependent on agriculture.

All were hard-up or worse, partly because there was so much wheat, so much cotton, so much tobacco, so many hogs, so much corn.

<u>What Does Specialized Production Have to Do With Surpluses?</u>

In the early history of this country, neighbors in every community divided up various things that needed to be done, and thus developed specialized abilities and skills for doing them. As specialists, these neighbors became increasingly dependent on one another.

A neighborhood of specialists is far different from a neighborhood in which everyone is self-sufficient. In the latter things remain the same over a long period, but in the former there is apt to be frequent change.

Suppose that a change in methods of production causes a marked and continuing increase in production.

Suppose that mechanical invention enables a shoemaker to make many more shoes than he could before. He will, in that case, find a demand for more shoes than he used to make; but if he goes on making more and more shoes, and other shoemakers send their shoes into his territory, he will reach a point at which he will have to lower his price if he wants to sell more shoes.

His problem will thus have changed from a problem of increasing production, which had once been his main concern, to a problem of increasing his sales or finding a market for his output.

He can usually increase his sales by reducing his price, but if he keeps doing this he will eventually be selling shoes for less than his cost of production.

That is the road to ruin. Or he may find that he is making so many shoes that, regardless of price, people with only two feet apiece will have no use for them. In either case, he is left with a surplus, from which he can get no return at all, or a return below his production cost.

<u>What Are "Carry-Overs?"</u>

At the beginning of 1933 most of the stored wheat and corn and much of the accumulated cotton, tobacco and hog crops represented farm surpluses, which were far larger than the yearly carry-overs that form a normal part of our established system of agriculture.

Enough of each leading farm commodity has always been carried over from one crop season to the next to make up for a crop failure or poor harvest.

The surpluses which depressed prices throughout the post-war period were in addition to carry-overs that were adequate to meet usual domestic needs.

At the first of 1933 the farmer's ability to produce had outrun the demand of his market. Most of the things that he had to sell could not be sold except at a price far below his cost of production. Some of these things were on hand in larger quantities than could be used by the entire consuming group within the farmer's reach.

There was no market for his goods.

What Caused Surpluses?

The surpluses that, early in 1933, brought American farmers down to the lowest point in their history, grew out of many causes.

Farmers who opened up the Mississippi Valley in the last century were able to sell more and more wheat, corn, hogs, and cotton because of new means of transportation then coming into use. Railroads and steamships enabled them to become specialists in foodstuff and fiber production for a very large area.

They produced not only for their immediate neighborhood but for the Nation and not only for the Nation but for the world.

As producers for the world market--primarily the European market--they had two special advantages: (a) their land came to them free, and (b) the flat, fertile quarter-sections of the prairie states were ideal for the use of large-scale agricultural machinery.

Most fields in Europe were too small and too hilly for the use of this kind of machinery. American farmers had a decided advantage in relative costs of production.

Didn't We Export Our Soil Fertility?

Because of their price, American farm products were attractive to the European market, and they were popular as factors in the new exchange of goods across the Atlantic.

A system of exchange in which America was the specialist in raw materials and Europe the specialist in finished goods had existed since the founding of the American colonies.

The simultaneous rise of modern industry in England and modern agriculture in the American Middle West vastly increased the scale of this exchange.

In order to develop its resources quickly, the United States borrowed heavily from Europe. The money brought into this country in the form of such things as rails for railroads went back to the Old World in the form of foodstuffs, carried east to the sea on the new railroads.

From the American farmer's point of view, his market seemed to be, and for a long time was, limited only by the limits of his own productiveness.

Tons of our soil fertility left our farms in the foods that we exported to Europe.

In the early 1900's, our population was increased every year by upwards of a million immigrants, and the world market for agricultural products was dominated by American competition.

How Did the World War Affect Farming?

When the World War got under way, Europe's military needs were piled and pyramided upon its economic needs. American farmers, to their advantage, took a major part in supplying these needs.

After America joined the combatants, American farmers, under the stimulus of high prices for their products, plowed up about 40,000,000 acres of pasture on which to increase food production.

"Food will win the war" was a slogan of the time.

An enormous expansion of agricultural production took place, at greatly increased costs to farmers.

In order to buy more land on which to grow more food, and to buy the machinery with which to operate it, thousands of farms were heavily mortgaged at war-time values.

The average mortgage debt per acre increased 235 per cent from 1910 to 1920.

War-time prices for things that farmers bought worked themselves back into the farmer's production costs.

Prices for farm land rose in direct proportion to the prices of the crops grown on it; but so long as prices were rising, the fact that costs, too, were rising was obscured by increasing margins of profit.

In the years just before the War, the relation between prices that farmers received for what they sold and prices paid for what they bought, had been in a fairly stable relation to each other. The farmer's income and outgo had balanced without stress on either side of the scale.

Although wheat prices were held down during the War, sales for military purposes weighted the balance for a short time heavily in the farmer's favor; but when the military phase of the War ended, and military expenditures ceased, the balance went against the farmer with a violent jolt.

Economic and political consequences of the War kept that balance against the farmer.

What Was the Farmer's Share in "Good Times?"

In the 10 years after the war, American industry developed a seeming

prosperity exceeding any other ever experienced by any country; but it was unsound in that it rested partly on a speculation base, and agriculture did not have a proportionate share in it.

Why didn't farmers share in this prosperity of the 1920's?

In the War years, when farmers were making relatively large profits, trade relationships across the Atlantic were changing at their roots.

The United States, once a debtor nation, became a creditor nation, Instead of sending our surplus goods abroad to pay our debts, as in years gone by, we were now in a position to receive the surpluses of other nations' goods to pay their debts to us. We made no arrangements to permit this to happen.

How Did Our Increased Tariff Work?

We increased our tariff and, at the same time, insisted on debt payments from European nations to us.

European purchases in this country were possible, therefore, only through a series of American loans to Europe, which kept Europe buying from us for a while, but aggravated Europe's increasing inability to pay its American debts.

In 1928 American investors found the domestic stock market more attractive than European bonds. American lending to Europe then ceased. Europe had to stop buying from us, and goods that it had formerly bought here remained unsold.

While American tariffs were walling out foreign goods, efforts were being made by European nations to close their foodstuff markets to outsiders.

These nations felt it to be vitally necessary for them to feed themselves from within their own borders. They resolved to try to pay the price of putting back on their feet their own agricultural populations which America's dominance of the world market had for years been driving to the wall.

Who Undersold Us In World Markets?

In such world markets as remained, the American farmer was meeting competition from producers whose costs of production stood in the same relation to the American farmer's costs as his own had stood to those of European producers two generations before.

The War market had brought into full production vast areas of land in Canada, Australia, and Argentina which were as well adapted to the use of large-scale machinery as is our Mississippi Valley area, and this land in those three countries had been acquired as cheaply by its owners as our grain-belt land had been obtained by its early owners.

New producers in these three countries were able to undersell Americans for the same reason that Americans had once been able to undersell Europeans.

During the war, American land had become high-cost land, though, with the farm depression which followed, much of the justification for that high value had passed.

What Else Worked Against Us?

The after-war anti-immigration laws of this country sharply restricted the growth of population in the United States. More people are now leaving America than are coming into it.

Our people formed new habits of eating. Such foodstuffs as fresh vegetables began to compete on a large and increasing scale with major foodstuffs in the consumer's diet.

Millions of horses and mules had been displaced by autos, trucks and tractors. These animals had eaten the crops produced on 35,000,000 acres.

More acres could be cultivated with a motor than with a team, but the use of the motor might be destroying the outlet for the bulk of the produce of those acres.

Any one of these major changes would have left the American farmer with a surplus; all of them together left him with an enormous surplus.

When the general depression struck America, agriculture had already been depressed for 9 years. After the depression had run 4 years more, American farmers were in acute distress.

Don't Increased Yields Need Increased Outlets?

For 150 years farmers have been working to increase their yields. They have increased them in part by their own efforts and judgment, by rotating crops, by using animal and chemical fertilizers, by replacing horses and mules with tractors and combines. Most of what they did in this direction intensified their dependence on the industrial part of the nation.

Farmers also increased their yields by obtaining, through Congress and State legislatures, Government assistance in farming more productively. Their aim long has been to make two blades of grass grow where one or none grew before.

From the early homestead laws to vast irrigation projects, Government measures have helped farmers to obtain new acreage.

The Government has helped the farmer to find out what to do to maintain or increase his efficiency, and it has financed him in doing it.

Didn't We Finance Increased Efficiency?

Since 1914, when it was demonstrated that farmers could have access to the credit facilities of the country only at discriminatory interest rates, a series of institutions was established to finance the farmer's increased efficiency.

These institutions included the Federal Farm Loan Board, Federal land banks, intermediate credit banks and agricultural credit corporations.

In making these improvements and in securing Government aid, the farmer had his eye fixed on the yield of his own farm. Until the 1920's, the farmer's mind was set solely on bigger and better crops.

Individual efficiency must continue, but productive efficiency must be matched by efficiency in economic control--in regulating the total output.

Isn't the Need Bigger and Better Markets?

After the war, bigger crops became bigger surpluses, and the farmer's attention moved on to another economic process; He wanted bigger and better markets.

His thought had always been centered on his own farm. The market for his products had always seemed distant and intangible to him. "Domestic and foreign demand" and "buying power" meant little to him. He rarely if ever thought of himself as a definite factor inthe world's agricultural markets.

Years of depression, however, forced on him the fact that his local view was not broad enough. Taken by themselves, his crops were not surpluses that lowered and kept prices down, but they were never taken by themselves; they were taken along with the crops of all his neighbors and of every other farmer's neighbors.

Why Did Farmers Tackle Marketing?

Farmers tried to meet their new problem of not enough markets for their crops in the same way in which they had tried to meet their old problem of not enough crops for their markets. They made certain efforts of their own and asked for Government assistance.

The twice-vetoed McNary-Haugen bill proposed to raise the price of domestically consumed farm products over the world price by the amount of the tariff. The plan was to be financed by the collection of an "equalization" fee from the farmer.

An export debenture plan, providing for debentures (rebates) on exports amounting to all or a part of the tariff on each surplus commodity, also was proposed.

In 1929 along came the Agricultural Marketing Act, establishing the Federal Farm Board, which was intended to maintain prices by holding farm products off the market.

In the case of wheat, no practical method of limiting production was provided for, and more and more wheat was continually pouring into a market which, because of the spreading world depression, was less and less able to take it.

Farmers went on producing more as prices fell.

Do Low Prices Force High Production?

So long as the farmer acted as an individual, there was little else that he could do. If the price was low, he must sell many bushels in order to keep going. If the price sank lower still, he must sell even more bushels.

He knew that if less wheat went to market there was a probability of a rise in price, but how could he be sure, if he reduced his own crop, that his neighbors would grow as much as ever, or more. If they did, would not his own efforts be nullified? In this doubt, he increased his own plantings of all surplus crops.

There was the possibility, as he well knew, that the weather or other cause might result in a short crop and higher prices. In a few cases where this happened, however, the adjustment of the crop to the market was wholly unplanned by the farmer. Therefore, if he had reaped as he sowed he would have had the usual low price for his product.

How Did Cooperative Marketing Work?

The cooperatives organized by producers of various farm commodities in the 1920's represented an effort to escape by collective action from this vicious situation of excessive production and low prices.

In some cases, and for certain periods, they had a degree of success in controlling market supplies. Where the product dealt with was grown in a restricted area, they had a fair chance to be a dominant factor in the market. In attempting to control supply of the chief products of our agriculture, however, producers' cooperatives couldn't succeed; for, unless they had a practically 100 per cent membership, their good work was likely to be undone or seriously crippled by outsiders who enlarged their production.

In his 1930 report, the then Secretary of Agriculture said: "The current slump in agricultural prices and incomes reflects the combined influence of overproduction in some important farm products and the world-wide business depression. Agricultural overproduction existed before the business depression began....I want to emphasize the need for equitable, intelligent, systematic, and collective action to bring supply into better relationship with demand."

The collective action thus recommended in 1930 had not yet been taken three years later, when a new administration came into office in the spring of 1933 with a strong mandate to do something about agriculture.

What Was the Farm Situation in 1932?

What was the situation in which farmers found themselves when the agricultural adjustment measures were finally undertaken?

In 1932 the American cash farm income was $4,201,000,000; in 1926 it was $9,658,000,000, and even that sum was less than the farmers' share of the nation's wealth, but it enabled them to buy a large quantity of goods and services.

In 1926 the cash paid out by farmers in the course of producing their crops totaled $2,867,000,000. After they had deducted this sum from their share of the national income, and paid $932,000,000 for hired labor, $717,000,000 for interest, and $664,000,000 for taxes, they had $4,478,000,000 left on which to run their farms as homes.

A study made by the Department of Agriculture of goods bought by farm families in 1926 gives a fair idea of the things on which they spent their net cash income of $4,487,000,000. Cash expenditures per family of 4.4 persons in the group studied averaged $914, divided as follows:

Food (purchased), $218; clothing, $234; furniture, $40.20; operating goods (fuel, help, household supplies, transportation, communication, insurance on furniture, etc.), $169.90; health, $61.60; advancement (education, books, dues, vacations, etc.), $104.80; personal (gifts, candy, tobacco, etc.), $41; life and health insurance, $40.80; unclassified, $2.70--total $914.

<u>What Was the Cash Income of Farmers?</u>

Purchases for the farm as a business, plus purchases for the farm as a home, show the extent to which farmers were in the market in 1926. By the end of 1932, these purchases had largely ceased. The total cash income of farmers had dropped from $9,658,000,000 to $4,201,000,000. Out of their decreased funds they could maintain neither the farm as a place of business nor the farm as a home.

As farmers dropped out of the market, city breadlines grew longer. City workers who were on the streets because of the shrinkage in farm income were the largest urban group to suffer as a result of the farmer's misfortune, but they were not the only group.

Wage cuts and unemployment were shared by agricultural laborers, the business of rural merchants was virtually at a standstill, and the group holding farm mortgages totaling about $10,000,000,000 was threatened with disaster.

<u>Why Did Farm Land Values Go Down?</u>

Farm mortgages made between 1914 and 1920 were based on land values then current. The after-war break in prices disclosed the heights to which borrowings had risen.

In 1920, when commodity values plunged, returns per acre from basic crops sank down to where they had been before the war.

As crop surpluses accumulated, land values declined along with per acre returns. Farmers could neither wipe off their debts by selling out nor earn enough off their land to support their farms.

By 1928 farmers were further than ever in the hole; their average debt per acre had run up to about 300 per cent of their 1910 average.

After the depression became acute, farm mortgage foreclosures became so common that some state legislatures moved to halt them in the name of the public welfare.

The total value of farm real estate had fallen from $66,316,000,000 in 1920 to $30,515,000,000 in March, 1933.

The amount which the farmer had to pay back, measured in his commodities, was almost three times what he had borrowed, and his commodities got harder and harder to sell. The reason for his inability to pay his debts was obvious.

His inability to meet his fixed charges jeopardized his entire future. It jeopardized the life-savings of millions of his fellow-Americans, for his two chief creditors were insurance companies and banks.

What Was the Effect on the Banks?

Banks to the number of 1,705 failed in towns of less than 5,000 population in 1931; in the next year, 1,129 more failed. More than 4,000 banks, at the beginning of 1933 were in a position too weak to enable them to obtain licenses after the bank moratorium. Most of them were country banks.

Tax delinquency had depleted county funds until shortened school terms and arrears in payments to teachers were becoming more and more general. Because of unpaid 1932 taxes, 2,000 schools in rural areas failed to open in the fall of 1933.

The foregoing figures show the extent of the social break-down at the end of 1932 on farms and among groups dependent on farms for their welfare. They explain why farmers began taking matters in their own hands, refusing in some regions to permit further shipments of food at ruinous prices, and, in others, forcibly preventing foreclosure sales.

By March 1933, all banks in the United States were closed. Twelve days after March 4 in that year, the President submitted an agricultural program designed to control surpluses of farm products, whose price-breaking effects were the primary source of the farmer's difficulties and contributing factors in the general business break-down.